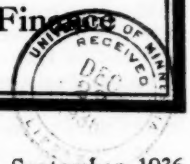
1936

Economic Conditions
United States Securities
Governmental Finance



New York, September, 1936

General Business Conditions

THE Summer trade season has come to a very satisfactory close during the past month. With the industries operating at the highest level in six years, farm prices advancing, and the bonus payments and other Government disbursements adding temporarily to purchasing power, the volume of goods moved has equalled the most hopeful expectations. Industrial and trade gains over last year, for the three months, have been in the range of 15 to 20 per cent. General business indexes, reflecting the fact that the seasonal decline was less than usual, rose in July to a new high point for the recovery, and although slackening automobile operations may pull the August figures down the drop will not be material. More money has been spent on travel and vacations than in a good many years, and July railway earnings more than doubled a year ago.

Thus far, at least, the crop losses due to the drouth have had little apparent effect upon the business turnover. The areas involved reported a slowing down of buying during the extreme hot weather, but on the whole have shown surprisingly little loss of trade. Rural retail sales in July were 18 per cent better than last year, according to a Department of Commerce compilation, and by all accounts they made a satisfactory gain in August also. Sears, Roebuck sales in four weeks ended August 13 were 37.3 per cent over last year. Department stores in Western cities as well as Eastern have shown good increases in the past month, though the gains were somewhat smaller than in July.

Effects of the Drouth

In considering the effect of the drouth on Fall business the most practical opinion naturally comes from merchants in the territories affected, who study conditions in their trade areas and plan their purchases accordingly. Reports from the wholesale markets show that the farm States generally are going ahead with preparations for a busy Autumn. In Chicago, Minneapolis, Kansas City, St. Louis, Dallas, Denver and other Western cities attendance at Fall openings during August has been the heaviest since the beginning of the depression, and the volume of business in proportion. This is in line with results reported earlier from Eastern wholesale markets.

The Department of Agriculture estimates that although farmers' cash income will increase less than seasonally this Fall, the total will be greater than last year, due to increased sales of livestock and higher prices for crops, which offset the smaller yields. The loss of buying power in the Northern Plains states will be made up by gains elsewhere. Government relief and soil conservation payments will likewise add to farm purchasing power. Thus for the remainder of the year at least farm buying is expected to be fully maintained.

Of course these indications as to trade do not justify representations that the drouth is anything but a calamity. Those who believe in restriction of production may point to the increase in total farm income as representing a gain in purchasing power, but the point overlooked is that the higher prices which produce the higher income must be paid by consumers, and after paying more for food they will have less with which to buy other things. Also consumers will have to pay in due course, through taxes or otherwise, for the relief extended by the Government, and for resettlement, reforestation and all the other projects set in motion by the drouth. These will be a charge on future purchasing power. Farmers themselves are both consumers and taxpayers. Thus the higher prices will be absorbed by higher costs for both producer and consumer, and the rise of costs is unfavorable.

In the long run a calamity such as the drouth tends not only to increase costs, but to upset price relationships and throw business out of balance. It obviously impoverishes some farm areas and people while enriching others, and indirectly takes away from some industries and gives to others. It may disturb labor relationships, if the rise in living costs leads to

demands for higher wages, and thus it increases the danger of labor disputes, which is already acute for other reasons.

That the Fall trade outlook may be interpreted as favorable, despite the foregoing, is explained in several ways. For one thing, much of the expected rise in retail food prices probably will not come until 1937. The consequences of the crop failure will thus be deferred, and so spread out that they can be borne more easily. Meanwhile factory workers are better able to face an advance in their living costs than they were in the comparable situation two years ago, by reason of the increase of 26 per cent in industrial payrolls, and of 17 per cent in real wages, in that time.

Most important of all, the drouth is only one element in the business picture. Business men are doubtless remembering that the calamity of 1934 proved to be no insuperable obstacle to business improvement.

No Summer Decline in Some Industries

Among the industries reports during August have continued to offer considerable encouragement. Operations through the Summer have been maintained better than is ordinarily expected, and in some important lines, including steel and cotton goods, there has been no seasonal recession at all. Cotton mills, with a good backlog of orders, are operating at a better rate than in the Spring, and at the highest Summer rate on record.

The steel reports are especially encouraging. Automobile orders for steel had tapered off before the first of August, as the end of production on 1936 models approached, and a drop in steel mill activity during the between-seasons period in automobile manufacturing was considered likely. However, orders from other industries, for both light and heavy steel, have maintained operations at the year's peak, above 70 per cent of capacity. Unquestionably the strong demand for steel, from such a variety of sources, is significant of the broadened base of the business improvement. With orders from automobile steel now increasing again, the outlook is promising, and a further rise in operations is expected this Fall.

Automobile assemblies, which have declined during August, will reach the low point some time after Labor Day, depending upon when the producers of the principal low-priced cars halt operations to change to 1937 models. Assembly lines in some factories will be under way again during September, and after that the climb will be steady. Sales continue to exceed earlier expectations; the July registration of new passenger cars was 357,000, against 369,423 in June and 285,195 a year ago.

Continuing improvement is also evident in capital goods lines. Machine tool sales in July made a new high for the recovery. Total building contracts awarded, according to the Dodge compilation, were 85 per cent above 1935, and showed a contra-seasonal gain over June. While the greatest increase was in public works, the volume of privately financed construction continues to rise, and is at the highest level since early in the depression. Railway and utility equipment manufacturers are holding their gains, with orders continuing above last year.

Accompanying the industrial activity, there has been a heavy demand for copper and lead, in part for munitions uses abroad, but also reflecting improved conditions in many directions, since both materials are of widespread industrial use. Copper stocks are the lowest since 1930, and the situation would probably support a further price advance, but foreign copper companies and a leading domestic producer take the position that an increase in output is at present more advantageous than higher prices, until a larger percentage of low-cost mining capacity is in use. Undoubtedly this is a viewpoint which some other industries might adopt. The increased production will lower the cost of the copper mined, consumption will be encouraged by the price policy, and the effect will be to increase volume and put people back to work.

The Fall Prospect

This is an encouraging array of reports for business men returning to their desks after the vacation period to consider. Looking forward to the farm trade as described, to the resumption of automobile operations, and to the maintenance of capital goods activity on at least its present scale, confidence in the outlook for the fourth quarter is general. It is a natural assumption, since business is still considerably below normal and wants are unsatisfied, that the recovery will not stop for lack of momentum, but only as it is interfered with by new maladjustments or outside developments; and the possibilities of interference during the remainder of this year do not seem any more threatening than they have been at other times. The European political situation is under a severe strain, but the attitude of the Powers supplies considerable assurance that the Spanish conflict will not be permitted to embroil other countries. The election in this country is doubtless holding some plans for business expansion in suspense; but the trade news shows again, as business historians have frequently demonstrated, that the belief that Presidential election years are always poor business years is incorrect. There is a growing disposition to believe that major labor troubles, including the threat in the steel industry, will not develop in time to stop Fall business improvement.

The chief questions that are likely to be raised about the current upswing are, first, whether some of the industries have not been

moving too fast, running the risk of clogging their distributing channels, and, second, whether the unfavorable factors surrounding the capital goods markets may not continue to limit their improvement.

It is certain that the bonus payments, totaling $1,200,000,000 to date, have been an important factor in the high level of consumer buying. The stimulus of these payments naturally does not stop with their first expenditure but continues as long as the money is actively turned over; however, the effect is gradually dissipated, and when it disappears there will be so much less support for trade. This is of course true of expenditures of Government debt generally, and illustrates the artificial and uncertain elements present in business as long as they continue. It is impossible to state precisely what part the bonus money plays in the current spending, and to what degree it will be offset by other purchasing power as its effects die down, but obviously it is a point to be considered.

Forward Buying

Another question is whether forward buying has reached any considerable proportions in the industries which have been particularly active, and whether part of current output is thus at the expense of the future. The rise in commodity prices has naturally induced those who foresaw it to cover forward requirements, and in canned goods and other foods which will be in short supply next Spring a good deal of advance buying has taken place. However, buying of this sort, in commodities of seasonal production, is merely common prudence, and serves to iron out price fluctuations. It facilitates the adjustment of the markets to the conditions they will have to face, or as the late Justice Holmes described speculation, "the self-adjustment of society to the probable." It gives producers the benefit of the higher prices earlier than they would otherwise receive them, and so acts as an incentive to production. Likewise it warns consumers that supplies are short and that they must economize, thus aiding in balancing supply and demand. Moreover, the so-called speculator performs the economic function of carrying stocks, at his risk, until they are needed. This will be true of the provisioners who will probably store supplies of pork and edible fats over the Winter against the short supply for next year. If their judgment is correct they will profit by their service, and if they misjudge the market their losses will be prompt and automatic, but the business situation will not be menaced in either event.

In non-food lines and merchandise generally there are no visible indications that more than seasonal stocks are being accumulated, although this might prove true in some of the consumer goods industries if current operating rates should hold much longer. Cotton mills, for example, can hardly sustain operations equivalent to 120 per cent of single-shift capacity, which was the rate in July, without in due course over-burdening their market. However, instances where wants have been anticipated far ahead are exceptional, commodity prices in many lines are still considered inviting, and it is not generally anticipated that stock accumulations will disturb the situation this Fall.

The outlook for capital goods is subject to uncertainties, including those enumerated a few paragraphs above. The favorable factors are the unquestioned need for modernization and new equipment in many industries, the improved earnings of corporations, and the moderate improvement in the market for offerings of new securities. These are leading to increased expenditures on capital goods, for the purpose of reducing costs and supplying necessary new equipment, and undoubtedly more of this work will be done this Fall and in 1937, especially by the public utilities. The building gains also are expected to hold.

However, there is still no general revival of new enterprise, and as stated earlier many plans are being held in suspense. Unquestionably the tax burden is one of the great obstacles, and particularly the fact that corporate tax rates graduate upward if corporations retain their earnings for purposes of capital expenditures, instead of distributing them to shareholders. As time goes on it is perhaps more clearly realized that the effect of the Revenue Act will be to discourage plant construction and purchase of machinery and equipment.

Distrust of Government regulation and competition is another obstacle. As the sweeping provisions of the Robinson-Patman Act, governing price discrimination, are studied, it becomes increasingly a cause of confusion; it will have to undergo a long period of interpretation before business men can know precisely how it affects them, and it may possibly cause great changes in trade practices, in distributing methods, and in the relations of large corporations with their sources of supply, the latter probably taking the form of a greater integration.

The Agricultural Situation

We have already commented on the drouth in relation to the business outlook, but the effects on the agricultural situation and the various commodity markets are also of interest. The August 1 crop report of the Department of Agriculture showed that the damage caused during July had not been over-estimated in the markets, for the crop forecasts in most cases were even smaller than anticipated. During the first half of August the drouth and heat

continued, and private estimates of the corn crop were further reduced. After the middle of the month both the corn States and the Plains country to the West of them finally received adequate rains, which will help pastures and forage crops and make Fall plowing possible. However, they come too late to do corn much good.

The estimated corn yield per acre, according to the August 1 report, is only 14.6 bushels, the lowest since 1866 when official crop statistics were first compiled. The estimated crop of 1,439,000,000 bushels is the smallest since 1881, and compares with an average around 2,500,000,000. Farm stocks of corn on July 1 were 200 million bushels greater than last year but 75 million less than in 1934. With poor pastures requiring increased feeding, farm stocks are being drawn down this Summer, and the carryover of old corn on October 1 will be considerably smaller than two years ago. A good deal of Argentine corn will be imported, but if the entire exportable supply should come here it would make up only a small part of the crop loss, and the bulk of Argentine corn goes to Europe. In the year 1935, following the last drouth, imports of Argentine corn totaled 43,000,000 bushels.

Hog Market Prospects

The short corn supply is by far the most important effect of the drouth, and its influence will be felt chiefly through the pork and lard markets, since corn is the principal feed of hogs and they normally consume 40 per cent of the crop. The first effect of the drouth is to make feeding unprofitable. In the early part of this year hog prices were relatively high, 100 pounds of hogs in the Chicago market being worth 17 or 18 bushels of corn. With corn advancing to a peak price of around $1.15 this ratio has dropped to 9 bushels, which is below average, though not as low as in 1934.

With such a rapid rise in feeding costs, brood sows and young hogs are being sold off, and Spring pigs will be marketed early. Temporarily this will increase the supplies available. The pig crop farrowed last Spring was the largest in three years, showing an increase of 29 per cent over 1935. These pigs will move to market this Fall and although they will be light in weight the pork and lard supply will be substantially larger than a year ago.

In the late Winter and the Spring of 1937, on the other hand, marketings will be relatively small. The expected increase of 14 per cent in Fall farrowing will plainly not be realized and pig production next Spring is sure to be small. Prior to the drouth the number of hogs on farms, having reached bottom in 1935, was rising again, but the scarcity of feed will interrupt this trend. All this would seem to indicate a seasonal drop in prices this Fall and a sharp advance thereafter, but of course buying in anticipation of the Spring shortage may iron out these fluctuations and moderate the seasonal decline. The increased buying power of factory workers and city people generally is another factor tending to support prices.

Supplies of hay and roughage are greater than in 1934 and the number of hay consuming animals smaller. The cattle markets will be less affected than the hog markets. However, increased feed prices and poor pastures will greatly reduce the marketings of finished cattle, and the number put on feed may be smaller than in 1934. After the 1st of October supplies of fed cattle may fall off rather sharply while low grades will be abundant. Evidently the price spread between grades will widen considerably.

Butter production has been curtailed by the drouth and will be low during the Winter. With a good demand in sight prices will be high. The egg outlook is similar. Poultry marketings have increased sharply as feed prices have risen, and the number of layers kept on the farms for Winter will be relatively small.

The Situation in Fats

The drouth, together with the imposition of taxes on imports of foreign vegetable oils in the 1936 Revenue Act, has had a prompt effect upon prices of edible fats. Cash lard has advanced 2 cents since the middle of June and futures more, and cottonseed oil has rallied sharply from the season's low. Prices of fats showed considerable weakness until the corn prospect began to deteriorate, for low feeding costs favored the production of heavy weight hogs and a big increase in lard output. However, the prospect is changed as described, and while lard supplies in the Fall and Winter will be larger than a year ago, the increase will be less than expected. Moreover, for reasons already given, lard production should decline rapidly in the early part of 1937.

The advance in prices of fats and oils after the drouth in 1934 was finally halted not only by curtailment of consumption, but by greatly increased use of imported and substitute oils. For example, the use of peanut, soy bean, palm and sesame oils in edible products in 1933 was almost negligible, but in 1935 the consumption had risen to 98.8, 63.5, 117.7 and 49.6 million pounds, respectively. Cottonseed oil likewise was imported, to the extent of 328,000 barrels in 1934-35 and 339,000 in 1935-36. Receipts of foreign oils continued fairly heavy in the early part of this year, but in view of the new taxes are expected to fall sharply. Cottonseed oil is no longer coming in, for there are no surplus stocks abroad and prices have held above the New York parity. Olive oil shipments from Spain will of course be interrupted.

The cottonseed oil statistics have been improving for four years. The carryover on August 1 this year is estimated at the equiv-

alent of 853,000 barrels of refined oil, which is less than half the stock two years ago. Thus the surplus accumulated during the depression has been finally absorbed. Based on cotton crop estimates, production of oil in 1936-37 will be larger than in recent years, but the total available supply will be smaller.

With the import possibilities more limited than in 1934, and purchasing power higher, the position of the edible fats is evidently strong, moderated, however, by the temporary increase of lard supplies.

Cotton and Wheat

The August 1 cotton crop estimate of 12,481,000 bales was larger than the trade expected and the price has receded to the 11½ cent level, although the general impression is that the crop has deteriorated during August due to drouth and heat in the Western belt. Demand for the early ginnings should be good, as mill stocks are small in relation to current operations. The favorable factors in the cotton market are the heavy domestic consumption and the improved statistical position, resulting from the absorption of half of the Government-controlled stock last season. The unfavorable factors relate chiefly to the foreign situation, which holds small promise of improvement in cotton buying. Production of foreign growths will show another increase this season, according to preliminary estimates, and their prices, relative to American cotton, have dropped again. It is unfortunately likely that the consequences of the crop restriction policy in reducing the use of American cotton abroad will be very apparent again this year.

The wheat situation, which we described last month, has undergone little change. The crop estimate of 633,000,000 bushels was only slightly lower than the July 1 forecast, and for all practical purposes is final. With a carryover of 150 million bushels the total supply will be about 100 millions larger than last season's consumption, but this is an insufficient reserve margin. Imports of milling wheat will be necessary; the Department of Agriculture predicts, however, that flour mills will use a larger percentage of Winter wheat and Pacific Northwest wheat, and that the quantity of full-duty bread wheat imported from Canada will be less than last year, when it totaled 26,000,000 bushels (plus 9,000,000 of feed wheat).

Money and Banking

The principal event in the money market during the month was the rendering effective on August 15 of the 50 per cent increase in member bank reserve requirements announced by the Board of Governors of the Federal Reserve System on July 14. The new regulations, as they apply to the different groups of banks and classes of deposits, compare with those previously in effect as follows:

	Demand		Time	
	Old	New	Old	New
Central reserve city banks	13%	19½%	3%	4½%
Reserve city banks	10	15	3	4½
"Country" banks	7	10½	3	4½

The purpose of the change in reserve requirements was discussed in our previous issue and elsewhere, and we do not have space to repeat. As generally anticipated, the change had comparatively little effect upon the market. Interest rates were no firmer; in fact, generally showed an easier tendency. Bankers' acceptance rates were steady at the 1/16th advance established in July immediately following the announcement of the proposed reserve alterations. Yields on short-term Treasury bills, on the other hand, which had risen during July and early August from 0.067 per cent to 0.23 per cent, eased thereafter to 0.17 per cent, while prices of long-term U. S. Government and high grade municipal and corporation bonds reached new high levels.

Evidence of the ease with which the shift in reserve requirements was made appeared also in the fact that total borrowings of weekly reporting member banks in 101 leading cities increased only a million dollars in the week ended August 19. There was some drawing down by banks of balances with correspondents, indicated by a drop during the same week of over $100,000,000 in domestic bankers' deposits in New York City banks. Bank holdings of investment securities declined for several weeks, due probably both to a need on the part of some institutions to strengthen their reserve position in anticipation of the stiffer requirements and to a desire on the part of others to take profits against possible market declines.

Reserve Surplus Up to Expectations

Estimates by the Federal Reserve authorities that by August 15 surplus reserves, calculated on the old basis, would approach 3½ billions, and after a 50 per cent increase in reserve requirements would still equal $1,900,000,000, proved to be moderately off as to timing. Actually, as of the 12th (nearest reporting date to the 15th), surplus reserves stood at $3,170,000,000 on the old basis, and $1,700,000,000 on the new.

The reasons for the failure of surplus reserves to increase quite as rapidly as expected lay partly in the trend of Government net disbursements over receipts and partly in movements of currency in circulation. Owing largely to substantial repayments of R. F. C. advances, Treasury balances with the Reserve Banks did not fall as fast as anticipated. At the same time currency paid out to veterans in connection with the cashing of bonus bonds has been slow in coming back to the banks. Evidently the veterans are still holding considerable amounts of cash, or else deposits of bonus money are being offset by demands for currency arising from the unusually active vacation season and

continued relatively high level of retail trade and industrial payrolls. Probably both factors have been influential. On August 26 the total of currency outstanding was $6,184,000,000, an increase of over $600,000,000 compared with the total a year ago and the largest on record, save for the period of heaviest bonus bond redemptions in July and the banking holiday in 1933.

The delay in the increase of reserves was only temporary, and by the 26th the "excess" was up to the predicted $1,900,000,000, despite the unexpectedly heavy currency demand. During August the Treasury continued to draw on its balances at the Federal Reserve Banks, reducing them by the end of the month to the lowest levels in over six months. In addition, gold imports had a minor influence upon the reserve position. Between August 1 and the 29th inclusive, gold engagements abroad for shipment to this country aggregated $49,000,000, of which a little more than half were in France, the latter purchases accompanying renewed uneasiness over French political and monetary developments. Actual net receipts of gold totaled $47,000,000, which, together with Treasury purchases of domestically mined metal, not only increased bank reserves but raised the gold stock to a new high level. On August 26 the latter total was $10,695,000,000.

Symptoms of Increased Business Borrowing

Aside from the foregoing developments, interest during the month attached to a rise of approximately $100,000,000 in "all other" loans of the weekly reporting banks in the three weeks ended August 19. While by no means all loans of this category can be considered of commercial character, nevertheless the item covers loans of this class along with others, and its fluctuations have been found to be roughly indicative of general business borrowing. Coming in a period of business improvement, the increase has been regarded as possibly signalizing the long awaited upturn in the demand for commercial credit.

As noted in previous issues of this Letter, the trend of "all other" loans in the reporting banks has been upward for about a year, and altogether an advance of approximately half a billion dollars, or about 16 per cent, has taken place. At the same time that this advance has been taking place within the banking system, the volume of new corporate issues for purposes of raising new capital has also had some increase. The announcement during the past month by the Bethlehem Steel Corporation of its intention to float a $55,000,000 bond issue partly for plant expansion and betterments is a recent case in point. During the first seven months of this year the total of new corporate issues involving new capital amounted to slightly over a half billion dollars, which was more than three times as much as was offered in the same period of last year and the largest for any corresponding seven months since 1931.

All this is, of course, encouraging, for undoubtedly the tendencies indicated can be counted upon to develop further unless business gets an unexpected setback. However, the importance of the gains achieved so far should not be emphasized unduly. At best, little more than a beginning has been made. The outstanding fact of the credit situation is that there is still billions of available bank credit and investment money awaiting an opportunity for employment.

Profits in the Merchandising Industries

The rising trend in cost of living has again directed attention to the old problem of why there should be such a wide spread between the price received by the producer and the price paid by the consumer for the same commodity. How much of this cost of distribution represents the actual expenses of distribution, and how much is taken out as profits?

Published reports of the leading department stores, chain store systems and mail order houses show profits running up into several millions of dollars, but as these profits are invariably accompanied by large volumes of business, the margin of profit per dollar of sales is relatively small. The gross profit, representing the "mark-up" or the difference between cost of goods and selling prices, is often confused with the net profit remaining after the payment of all operating expenses and taxes. Moreover, the published statements of the larger companies are not necessarily typical of the merchandising industry as a whole.

Following is a summary of the gross and net income of all trade corporations in the United States, both retail and wholesale, compiled from the annual Statistics of Income, from the first report in 1916 to the preliminary figures for 1934. The table shows the total number of trade corporations and the percentage that reported a profit each year; combined gross income, Federal and local direct taxes paid, balance of net income after deducting taxes and deficits, and the percentage of net to gross income; also the dividend payments as reported since 1922.

Of the total number of trade corporations in this country, averaging about 109,000, the percentage reporting a profit ranged from 83.9 in the active year 1919 that followed the close of the war, down to 15.8 per cent in 1932, the bottom year of the depression, and averaged 57.7 per cent during the period. This group included many of the larger companies and

All Trade Corporations in the United States
(In Millions of Dollars)

Year	Total ‡ Number	Reporting Profit-%	Gross Income	Taxes Paid	Net Inc.† after Tax	Net to Gross-%	Dividends Paid†
1916.....	30,583	68.7	$ *	$ *	$ 388	*	$ *
1917.....	91,057	80.0	21,265	445	1,056	5.0	*
1918.....	70,149	83.2	21,662	485	632	2.9	*
1919.....	70,159	83.9	25,438	458	1,016	4.0	*
1920.....	78,885	66.3	31,513	308	379	1.2	*
1921.....	88,179	48.5	27,344	236	D-152	D-0.6	*
1922.....	95,683	62.4	28,677	247	588	2.1	302
1923.....	100,646	67.8	32,274	281	805	2.5	369
1924.....	105,323	64.6	35,115	284	681	1.9	390
1925.....	109,588	65.6	39,847	315	821	2.1	440
1926.....	112,705	63.4	40,938	317	694	1.7	471
1927.....	119,678	62.5	40,944	332	657	1.6	495
1928.....	126,347	63.1	43,204	328	765	1.8	499
1929.....	129,089	60.9	43,495	312	623	1.4	566
1930.....	131,487	45.4	37,209	288	D-152	D-0.4	497
1931.....	132,848	34.7	30,593	252	D-611	D-2.0	386
1932.....	132,314	15.8	23,133	213	D-835	D-3.6	214
1933.....	132,896	29.6	24,199	251	D-103	D-0.4	179
1934 P...	140,871	37.6	32,955	382§	225	0.7	221§
1917-34 Total....	109,328	57.7	$597,805	$5,734	$7,089	1.2	*
Avg.....	109,328	57.7	33,211	320	394	1.2	*

‡Excluding inactive corporations. † Excluding intercorporate dividends paid and received. *Not reported. D- Deficit. P- Preliminary. § Partly estimated.

handled about three-quarters of the total trade. The remaining 43.3 per cent of all corporations, which includes many of the smaller stores and accounts for one-fourth of the total trade, or about $8,000,000,000 annually, did business at a loss. Few individual companies, of course, remained in one group or the other continuously. A profit in one year might be followed by a loss the next, and as old established companies failed and were liquidated or merged, new companies were organized to take their place in the competitive struggle for business. The figures show the large number of American merchandising companies that, during the relatively good years as well as the bad, are not successful in making any net profit.

Gross Income, Operating Expenses and Taxes

Gross income represents principally the value of sales of merchandise, but it includes miscellaneous income from other activities such as real estate, repairing, various services, interest, etc.† The importance of the merchandising industries in the economic system may be judged from the size of their gross income, which since 1917 has averaged over $33,000,000,000 per year.

Cost of doing business, represented by the difference between gross and net income, is made up principally in cost of goods purchased and in payments of wages and salaries, although other expenses, such as rent, heat, light, depreciation, insurance, interest and tax charges, together make up a substantial total. There has been a steady upward trend in the item of taxes,—an expense over which the merchant has no control,—only part of which is shown in the above tabulation of direct taxes paid.

During the war and for some years afterward, most of the tax charge was for federal income taxes at the high rates then in effect, with local taxes of only minor importance. As the federal tax rates were progressively lowered from 1920 to 1930, the federal tax charge was greatly reduced. It is not generally realized, however, how the variety and rates of state and local taxes, usually based upon sales, number of stores, real estate, etc., rather than upon income, have been increased during recent years. More than half of the States have passed special taxes discriminating against chain stores (some of which taxes have been declared unconstitutional) and the tabulation shows that from 1917 to 1934 the average merchandising corporation paid direct taxes of about $3,000 per year. This does not include numerous indirect taxes that bear upon the industry, such as sales taxes paid by the customer for which the merchant acts as collecting and remitting agent; internal revenue and manufacturers' excise taxes, also the A.A.A. processing taxes since declared illegal, which are added into the wholesale prices of goods purchased; federal and state income taxes levied upon the wages and salaries received by store employes, upon the dividends received by shareholders and upon the interest received by holders of bonds and mortgages; and, finally, the substantial element that realty and other taxes represent in such expenses as rent, electric power, transportation, insurance, telephone and telegraph services, etc.

Taxes upon trade are so extensive that they bear upon the entire population, although by no means uniformly. Since everyone is a consumer, no one can escape, yet the fact that so many of these taxes are "hidden" instead of direct is undoubtedly responsible for so many people assuming that they are not tax-payers and therefore are not concerned with cost of government. It is interesting to note that for the period covered by the above summary, direct taxes alone amounted to more than four-fifths of their net income after taxes. Since 1934, the trends of both federal and local taxes have been upward.

Percentage of Net to Gross Income

In analyzing the statistics of profits in trade, the most important relationship is probably the ratio of net to gross income. This shows the portion of the value of the product sold, after payment for cost of goods and for operating expenses, that is taken out by the distributor

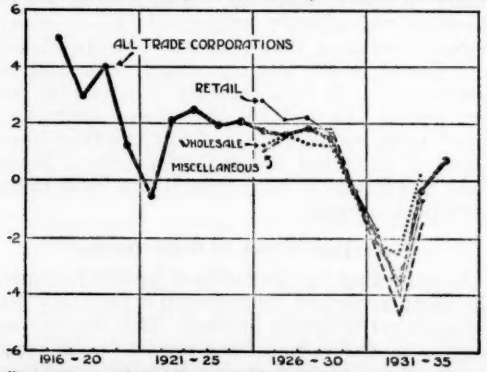
†Gross income as reported does not include tax-exempt interest received from government and municipal bonds, nor dividends received from operating subsidiaries or other corporations, which until this year have not been subject to tax inasmuch as they represent merely the distribution of income on which the subsidiary files a separate return and pays the regular corporate tax. Neither of these tax-exempt items is of large importance in the merchandising industries, and the combined total of the two is only about 1/5 of one per cent of statutory gross income.

in return for the use and risk of his capital employed in the service of distribution. Profit on sales is somewhat more significant than rate of return on capital, because the actual value of a going concern is quite difficult to determine and over a period of years may undergo great change, depending upon how successful the enterprise may be in meeting the constant competition in the field and in adjusting itself to changing types of merchandise, changing prices, changing markets and changing methods.

In the summary given above, it is shown that for all trade corporations in the United States, during the eighteen year period 1917-1934, the average margin of profit after taxes was 1.2 per cent on gross income. This margin ranged from a high of 5.0 per cent in 1917, a year in which normal merchandising profits were swelled by the abnormal demand for goods and by a rapid rise in prices, down to a deficit of 3.6 per cent in 1932, the bottom year of the depression. These figures include income from miscellaneous operations as well as from sales.

In the years 1921, and also 1930 to 1933, there was no net income for all trade corporations taken together. If these five deficit years be excluded, the average profit over the remaining thirteen profitable years was still only about 2.0 per cent.

It has long been recognized by successful merchandising organizations that the surest way to better profits is to expand sales turnover but to keep profit margins down. The narrowness of the average margins, however, even in good years, will be surprising to anyone not closely versed in the business. In the accompanying diagram are shown the average percentages of net to gross income for all merchandising corporations beginning with 1917, together with the percentages for the three major divisions of the business as available from 1926 to 1933. These divisions are, first, retail stores, including department stores and chain store systems; second, wholesale and commission; and third, a miscellaneous group comprising companies that do both retail and wholesale business, also jobbers, importers and exporters, and other specialized types of merchandising.



Percentage of Net Income after Taxes to Gross Income of All Trade Corporations in the United States

Following the active years 1917-1920, the business fell in 1921 to an average loss of 0.6 per cent on sales. Then in the period 1922-1929, the average profit was 1.9 per cent, and it will be seen that the general trend of the margin was gradually downward, although the expansion in sales permitted total dollar profits to be well maintained. The year 1930 brought a drop to minus 0.4 per cent, and was almost as bad a year as 1921 had been, while 1931 and 1932 were progressively worse. In 1933 the industry was still in the red but preliminary figures for 1934 indicate a profit of 0.7 per cent.

It will be seen that all three major divisions of merchandising experienced the effects of the depression and followed the same general pattern. The severe contraction in sales could not be offset by a proportionate reduction in expenses, and heavy losses had to be taken on inventories due to the downward price trend. In 1933, and presumably in 1934, all groups showed some improvement.

Dividend payments by merchandising corporations increased each year from 1922 until 1929, then dropped sharply, and by 1933 were the lowest for any year since the item was first reported in 1922. Over the thirteen-year period 1922-1934, cash dividends paid out by merchandising corporations totaled $5,029,000,000, while net profit after taxes in the same period totaled $4,158,000,000. Many individual companies built up their surplus from undistributed earnings, yet taking the industry as a whole, all of its net income was distributed and $871,000,000 in addition. Cash dividends paid were about 121 per cent of net income for the period, but only about 1.1 per cent of gross income.

The Real Cost of Distribution

Although it is true that there is a wide spread between producers' prices and consumers' prices, it is evident from the official statistics that profits, which since 1917 averaged only 1.2 per cent on sales, are not a major factor. The principal elements in selling prices are the cost of the goods themselves, plus wages, salaries and other expenses and taxes, which together absorbed 98.8 per cent of each dollar's sales, on an average.

Cost of distribution in this country has been increasing for a number of reasons. In the food industries, we now have fresh vegetables, fruits and dairy products delivered to practically all localities in all seasons, being transported daily between different parts of this country and abroad, and the cost of refrigerating and handling such perishables is high. In the apparel industries, the style factor always

increases cost of distribution, making it necessary for the merchant to carry more extensive inventories, to reorder more often and to take more losses in closing out stock. Diverse and continually changing styles of merchandise are by no means confined to clothing, but are now important in automobiles, home furnishings and almost every kind of goods sold, with the exception of certain basic raw materials. Even in steel making, there are today more than 10,000 different standard specifications for steels differing in their chemical composition and treatment so as to make them most suitable for particular uses, whereas a generation ago there were but two kinds of steel —hard and soft. Such diversification of type of product naturally increases cost of distribution.

Concentration of the population in larger cities is a contributing cause to increased cost of distribution, since the congested cities bring added expenses for transportation, inspection, storage, etc. In some instances, it costs more for the trucking and handling of goods from a railway terminal to a store in a city than it costs to have the same goods transported thousands of miles by railroad. Another element is the demand for increased services, already mentioned.

It would seem that the most promising point of attack on cost of distribution is not in the small margin of net profit, which permits the merchant who is able to make a profit to continue in business, but rather in the actual operating cost. The latter is the heart of the problem and the solution can come only through better methods, improved efficiency and elimination of waste. Needless to say, the pressure of competition under which business is done provides a constant stimulus for every enterprise in the merchandising field to pare down such costs as are within its control, so as to offer lower prices and to gain a larger volume of the consumers' trade.

Difficulties in the Milk Industry

One of the by-products of the great drouth is the menace of a milk strike in New York State, and possibly in other localities where the production of liquid milk for city distribution is the leading farm industry. No other article of the daily diet is so important as milk because not only is it the principal food of growing children, but there is no substitute for it. As a natural diet in itself it is practically indispensable for children, and is also used largely by adults.

Moreover, while the immediate effects of a cessation of the milk movement from the farms to the cities would be serious in the cities, the results to the milk producers in the villages and smaller cities could not be other than harmful. It would mean a loss of income and purchasing power throughout the dairy regions with possible repercussions elsewhere. These difficulties illustrate the complex relationships in our modern system of distribution and the disorders that result when any of these relationships is changed too abruptly.

Faced with advancing feed costs, the New York dairymen have been asking for an increase in the price at which their milk is sold to the dealers, and last month an increase amounting to about ½ cent per quart in the basic price was granted by the New York Division of Milk Control, a State board which exercises supervision over milk prices. No increase was authorized, however, in the retail selling price of milk.

This means that the entire increase in costs must be borne by the distributor. It might be assumed that a rise of only ½ cent per quart could readily be "absorbed" by the distributor, who works on a spread of several cents between the price paid for raw milk and the price received for the milk when delivered, but the actual expenses of the distributor are relatively fixed and the industry operates on a very narrow margin of net profit, with many dealers doing business at a loss. An extensive investigation into the cost of milk distribution in New York State was made in 1933 by a Joint Legislative Committee, and a number of reports were prepared under the direction of Professor Leland Spencer of the New York State College of Agriculture, Cornell University. Following is a summary by Professor Spencer for a more recent date, of the approximate costs incurred by the more efficient dealers on milk shipped from country stations in bulk for pasteurization and bottling at the city plants, to be sold on the retail routes:

Make-up of Retail Price of Grade "B" Milk for Route Trade in New York City, July, 1935

	Cents per Quart	% of Retail Price
Retail selling price	13.00	100.0
Class 1 price (paid producers)	5.40*	41.5
Milk dealers' spread	7.60	58.5
Milk dealers' costs:		
Freight	0.75	5.8
Country receiving stations	0.40	3.1
City pasteurizing plant	1.20	9.2
Containers	0.20	1.5
Selling, delivery, collections	4.80	37.0
General and administrative	0.15	1.2
Total cost	7.50	57.7
Net profit	0.10	0.8

*This price was raised to 5.80 cents, effective August 16, 1936.

This summary shows that the cost of the milk itself was about 41.5 per cent of the retail selling price, the various costs of distribution totaled 57.7 per cent and there was a net profit of only 0.8 per cent (or 1/10 of one cent per quart) remaining as a return upon the capital employed in the service of distribution. An

analysis of the types of operating expense making up the 57.7 per cent total reveals that most of this expense goes to labor, about half being direct payments of wages and salaries and the other half being for materials, supplies and services, such as transportation, containers, ice and refrigeration, advertising, insurance, taxes and property repair, a large proportion of which represents indirect payments to labor.

These figures are for the more efficient dealers and for the regular route trade; for the large portion of milk sold to stores, restaurants, etc., the price received is less but the cost of handling is also less. Some of the groups included in the study showed a slightly wider margin of profit than that given in the above summary, while other groups showed an average net loss, and there is considerable variation in costs as between different seasons of the year. Despite the numerous qualifications and exceptions, however, that should be taken into account in considering such statistics in detail, the evidence produced by this recent official investigation shows that the net profits, if any, of the distributor are a very minor item in the spread between the farm price and the retail price of milk. It seems clear that if the farm price is raised to any material extent and the distributor forced to "absorb" the increase, this would wipe out the entire net profit margin of many companies and would drive other companies further into the red, unless the higher milk cost could be offset by a reduction in labor cost, which is the largest element in distribution.

Classified Prices for Buying Milk

Another feature of the New York milk situation which precludes the application of any simple solution is the system of settlement, under which the farmers are credited at different prices for the milk used for different purposes. For the milk that is pasteurized, bottled and sold as fluid milk, the highest price is credited, while lower prices are in effect for milk used for various other purposes and a computed "average price for all purposes" is what the farmer actually receives. Following is the scale of prices on the more important classifications for the month of July obtained from the Dairymen's League Cooperative Association, whose membership includes a large percentage of the producers in the milk-sheds supplying the New York City market:

Milk Prices of Dairymen's League Cooperative Association, July, 1936

Class	Purpose	Price per 100 Lbs.*
1	For the New York retail trade	$2.45†
2A	For making into cream	1.78
3	For condensing and evaporating	1.74
4A	For butter manufacture	1.20
4B	For cheese manufacture	1.37
	Average for all purposes	$1.72‡

* 100 pounds equivalent to about 46.53 quarts.
† Price increased to $2.70, effective August 16, 1936.
‡ Including miscellaneous allowances of about 15c.

These prices apply to shipments of milk within New York State, and are somewhat higher than those paid for the same classes of milk coming in from other States.

This system of classified prices was worked out by the producers and the distributors jointly and was adopted years ago as the most scientific and equitable basis in paying for the entire supply of milk purchased from the dairymen. As milk is a perishable as well as essential commodity, and as the daily demand for fluid milk is subject to wide fluctuation, it is necessary that the distributor assure himself of a supply that is up to the rigid standards of quality and that is at all times sufficient to meet the maximum demand. It is equally necessary that the farmer have a market in which he can dispose of all of the milk produced each day, at a price. The surplus purchased by the distributor over and above the daily requirements for sale as fluid milk can always be turned to other uses, as enumerated above, but milk used for manufacturing must compete with surplus milk from other parts of the country used for similar products, — hence the lower prices. These classified quotations are subject to revision each month or as often as necessary.

Effects of Increased Prices

If the price of milk should be raised to cover increased costs, it is questionable whether the result would help the producer. In the case of classified milk used for any of the secondary purposes, a higher price would tend to restrict the sale of that particular product in competitive markets, diminish the amount of local milk used for the purpose, and add to the surplus going into the still lower-valued products. Even in the case of fluid milk, which has always been regarded as an indispensable element of diet, it has been found during recent years that an increase of only one cent per quart had the effect of reducing consumption seriously, and the State of New York is now levying a special tax upon the milk industry to be spent in advertising the value of milk as a beverage.

On the other hand, some of the dairymen are not satisfied with the recent increase granted on Class 1 milk, and have threatened to "strike" by withholding milk from the markets in an effort to enforce their demands, which include the abandonment of the classified price plan and the substitution of a flat payment of $3.00 per hundred pounds on all milk produced, regardless of the purposes for which the milk may be used.

Thus, the situation appears to be at a deadlock between producers, who feel that they are justly entitled to higher prices to cover increased costs, and the consumers, whose real purchasing power is already being curtailed by the rising cost of living and who include large numbers of families on relief.

Do We Have Monopoly or Competition?

The July number of this publication reproduced a table summarizing a computation of the wealth of the people of the United States, as classified and valued by two official bodies, viz: the Bureau of the Census and the Federal Trade Commission. As the basis of further comments, and to simplify the findings, we have merged the two estimates, as below, the final figures remaining unchanged:

Estimated Wealth of the United States

(Census and Trade Commission Combined, as of December 31, 1922)

(000 omitted)	Value	Percent of total
(1). All Real Estate, except that of Public Service Enterprises (not valued separately)	$198,264.444	56.2
(2). Public Service enterprises: railroads, power and light, water, pipe lines, etc.	45,747,369	12.9
(3). Furniture and Personal Effects	39,816,001	11.3
(4). Products, merchandise, etc. (current stocks)	36,167,606	10.2
(5). Movable equipment of farms and factories	24,195,002	6.9
(6). Motor vehicles	4,567,407	1.3
(7). Gold and silver coins and bullion	4,278,155	1.2
	$353,035,984	100.0

Note: The original table of two estimates appears in "National Wealth and Income", Federal Trade Commission, 1926, page 26, and in our July number.

The two official bodies responsible for the classification and estimate reached their conclusions through a mass of details, finally consolidating results into the seven classes of property shown by the table. Interest centers in the division of these general classes into individual ownership, and closely related to the question, "Who Owns the Wealth?" is the question, "Do We Have Monopoly or Competition?" The problem boils down to this: (1) Is the wealth of the country practically monopolized in the control of a few, and (2) Is the ownership now more concentrated than formerly, or is there a definite trend to either greater or less concentration?

The table tells nothing directly about ownership, but much may be inferred from the classification. Thus of the seven classes, numbered in the table, four, viz: (3), (4), (5) and (6), obviously are widely distributed, with no lack of competition in production or sale. Another class, (7) is concentrated in the Government Treasury, or in the Federal Reserve banks as agencies of the Government. Only two classes remain for scrutiny. Both of these were described briefly in the July Letter, but something more should be said of them.

Corporate Monopolies

"Public Service Enterprises" have been frequently and appropriately called "Natural Monopolies," because competition in their services is restricted by natural conditions, and may be wholly undesirable. Who, for example, would want the services of more than one telephone company? However, even these natural monopolies illustrate the natural tendency to competition in everything. The radio may yet compete with the telephone, as the latter does with the telegraph. Nicola Tesla says that before long electric current will be sent through the air to operate power stations, which might make all coal deposits and waterpower available everywhere — and what a world of competition would result from that? What will Television compete with? Not long ago the railroads were thought to be a "natural monopoly," securely entrenched, but the internal combustion engine has given them competition on land and in the air.

Nevertheless, there are public services which are monopolies at present, and it is an accepted principle that such enterprises are properly subject to supervision and regulation by public authorities. There is no issue over the principle. Moreover, governmental agencies have been established to exercise control, but complaints have arisen that the public authorities are neglectful, incompetent or deliberately unfaithful to their responsibilities. Therefore, the argument runs, Government ownership and management is the only recourse left. This, however, raises another question, viz: If public authorities are adjudged untrustworthy for the supervision and management of privately-owned public services, how can this judgment be made to justify vast public investments in the same enterprises, to be managed by public authorities?

Evidently the public will be loser under any policy unless it is alive to its own responsibilities. So long as this is not assured, why not limit the losses by limiting the liabilities, retaining both private ownership and official supervision as checks upon each other, and relying upon "pitiless publicity" to keep the public itself informed? If monopoly's treatment of the public is unfair, the victims will make it known, and if extortionate, the earnings will show it. Supervision of bookkeeping is a small task in comparison with the management of an industry. All corporation earnings are now a constant subject of inquiry by the United States Bureau of Internal Revenue, and the results are regularly published.

Aside from the Public Service Enterprises, the monopoly charge is usually made against industrial corporations, and mainly on account of size. However, it does not follow that because a corporation has large capital or is leading in its line, it has a monopoly. Any advantage that one competitor may have over another tends to give a degree of monopoly, but such conditions are of great variety and usually temporary. Moreover, competition exists not only between rivals in one field, but between all industries and all ways of spending money, and all new ways of doing things. We have re-

ferred to the competition of the radio with the telephone and telegraph, and of the automobile and the airplane with the railroad. We might extend the list indefinitely, calling attention to the competition of fuel oil with coal, and to the competitive efforts of engineering science by which in recent years the consumption of coal in modern steam plants has been reduced by more than one-third; of steel and cement with lumber, brick and other building materials, of rayon with cotton, wool and silk; of wood pulp with rags for making paper; of aluminum with copper, and so on, without end. Chemistry is learning how to separate all of the old materials into atoms and put them together in new products. These changes affect all industry and business, and of course all prices. Moreover, the "best money" is not made by raising prices, but by reducing them. And, finally, any increase of prices by one industry above the general price level affects both the volume of sales and the number of customers; hence no business likes to raise prices. And, finally, what do the profit figures actually show? See tables on pages 127 and 129.

Distribution of Ownership of Corporation

Also, it is a mistake to think that the earnings of large corporations are monopolized by a few. A "corporation" is simply a convenient form of co-operation through which many persons act together in carrying on business. The corporation affords the most advanced form of co-operation in economic life. It is the most flexible, democratic and practical method by which great numbers of people may participate in the ownership or conduct of business enterprises on the modern scale. The old partnership method, with unlimited liability of each partner for the acts of all, is quite impracticable where many are to be included.

All evidence goes to show that in recent years the corporate form of organization has been extending rapidly, that the tendency is to larger corporations, and that ownership in them is being more widely distributed. This is the immediate subject of inquiry. As significant of the trend we quote from a book entitled "The Modern Corporation and Private Property," authors: A. A. Berle, Jr., and Gardiner C. Means.*

Neither of the authors ever has been accused of bias in favor of the existing economic system, and this book freely expresses grave apprehensions concerning the growth of corporations. Thus the testimony comes from a source that is predisposed against the indicated trend, but the figures are official, (page 62):

In 1916, over 57 per cent of all corporate dividends (excluding those received by other corporations) were received by individuals reporting the 25,000 largest incomes. In 1921, this group reported only 35 per cent of all dividends. At the same time, individuals reporting other than the 100,000 largest incomes, those with an income of less than $13,000 in 1916 and less than $20,000 in 1921, increased their proportion of all dividends from 22 per cent in 1916 to 44 per cent in 1921. In the former year, half of all dividends were reported by 15,000 individuals, while in the latter year it required the combined dividends of 75,000 individuals to cover half of all dividends received. So large a shift in corporate ownership in the brief period of five years is a change of almost revolutionary proportions.

The Berle-Means book reports that on December 31, 1929, the three largest corporations in the United States, to-wit: the American Telephone and Telegraph Company, the Pennsylvania Railroad Company and the United States Steel Corporation had respectively, 642,180 — 241,391 and 174,507 stockholders; also that in no one of them did any individual own more than 1 per cent of the stock and that the 20 largest stockholders of the Pennsylvania Railroad Company together owned only 2½ per cent of the stock. Of the latter company it might have mentioned the well known fact that for many years a majority of the stockholders have been women. And, finally, to bring the statement down to date, it is proper for us to add that the proceedings of the latest annual meeting of each of these corporations have shown the number of stockholders to have been higher than ever before.

Apprehensions About the Trend

Apprehensions as expressed relate to the "increasing concentration of power in the hands of a few." They spring from a theory that the increasing size of corporations increases the danger of monopoly, and that the numerous small holdings will contribute thereto. This theory would practically deny the feasibility of co-operation on a large scale, but the continuing advance of civilization has been based upon increasing co-operation. Is this gesture of alarm warranted? Has not the capacity for co-operation grown with the exercise of it? Moreover, what super-authority could there be that would not be still more concentrated, and more remote from the actual services? Also who would select the super-authority and guarantee *him?* And finally, does not all social organization depend at last upon "trust," not only in "somebody," but in the authority of the moral law over all changes and trends?

This movement has been proceeding with a persistency and regularity characteristic of economic law, which is known to have the faculty of regulating itself, if permitted to do so. Apprehensions about monopoly have been in the air since long before the anti-trust act appeared on the statute books in 1900 as evidence of them, but all this time wages have been rising faster than prices, thus accomplishing the distribution of a rapidly increasing flow of products, except as hampered by the trade disorders which follow all wars.

*Prepared under the auspices of the Columbia University Council for Research in the Social Sciences, acting on behalf of the Social Science Research Council of America; published by Macmillan Company in 1932.

Results of the Industrial Trend

After all, the most conclusive answer to the fears of capitalistic power is given by the report of the United States Department of Commerce upon the distribution of the national income in the three years, 1929, 1932 and 1935, as summarized in these columns last month and particularly the division between personal earnings and property-earnings. It shows that in 1935, 67.3 per cent of the total income of all the people of this country was in the form of wages and salaries, that the "withdrawals" of unincorporated business, including farmers, (partly personal earnings and partly from capital) amounted to 16.2 per cent, making for the two groups 83.5 per cent of total income of all groups. As compared with this, dividends, interest receipts, rents and all other property income aggregated 16.5 per cent. In view of the well-known fact that many persons of very moderate means receive payments of rent, interest, etc., which, although small in each case, are important in the aggregate, it will be seen how far wrong are representations that 2, 3, 5 or 10 per cent of the population have 80 to 90 per cent of all income!

To go along with the Department of Commerce report, and as illustrating the practical results of the industrial development which occasions bewilderment in some quarters, we borrow from a recent bulletin of the General Electric Company, (185,744 stockholders) as follows:

In 1900, not one family in a hundred owned a horse and buggy; today, three out of four have cars. One family in thirteen had a telephone; now, one family in two. In 1900, modern plumbing and central heating were luxuries—less than 500,000 homes had electricity—radio and electric refrigeration were unknown. Today, 21 million homes are wired; 7 million families own electric refrigerators; 22 million have radio receivers.

In 1921, a Mazda lamp cost 45 cents; it now costs 15 cents. You receive 80 per cent more light for your dollar because of greatly increased lamp efficiency and a lower average electric rate for the home. General Electric research developed these lower-cost lamps, helped devise more economical ways of generating and distributing electricity—to bring better light to more people at less cost.

Today, electricity is vital to industry, for the manufacture of most goods — from bath-tubs to textiles, foods to furnaces—to meet the increasing needs and the purses of millions. In this progress, G-E research and engineering have ever been in the forefront. And still, in the Research Laboratory, in Schenectady, General Electric scientists continue the search for new knowledge—from which come savings, new industries, increased employment, more goods for more people.

With due acknowledgments to General Electric for the above, we think it is appropriate to add, simply as a matter of common knowledge, that the Westinghouse Electric & Manufacturing Company, another leader in electrical development, and numerous worthy competitors of both, are similarly active, and that every industry must be so if it is to remain in business.

In any account of industrial development the invention of the air brake by George Westinghouse would have a conspicuous place, for the economy and safety which it has given to railroad transportation. George Westinghouse also has to his credit an important part in the introduction of the alternating electric current, which solved the problem of long distance power transmission, and founded the great company which bears his name.

It is pertinent to add here that by the census of 1900, 7,632 establishments were employing 62,540 workers making carriages and wagons, and that the automobile industry was not mentioned. The 1929 census reports 1,398 establishments (including motor vehicle bodies and parts, but not tires) employing 447,000 workers, with a product valued at $5,260,000,000.

These are outstanding examples of the twofold services of the higher organization in the industries, i.e., by the widespread distribution of benefits to the entire population, and by the increasing demand for labor which enables the workers to have them.

Is There Monopoly in Land?

Six of the seven classes of wealth listed in the foregoing table now have been analyzed. The remaining class, real estate, is the most important of all. Mention has been made of the current theory that land is the greatest and worst monopoly, and that Manhattan Island affords the most striking example of it. We lack space for a full explanation of why so many persons have wanted to live or do business on Manhattan, but that they do is obvious. The effect has been to cause a competition for sites, thereby affording an impressive demonstration that when two or more persons want the same thing (and have something to buy with), the price will rise; also that later, if something just as good is found, or, for any reason interest slackens, the price will fall; and, furthermore, that if there are degrees of satisfaction between this, that and others, a scale of price-differentials will result, based on common judgment of the actual value-differences; or it may be that rival bidders have different uses for it. But anyway, the law applies to land precisely as to everything else.

"Monopoly" means arbitrary control of production and prices, but the area of Manhattan Island has been limited by Nature, and land prices clearly have been fixed by the competition of buyers, instead of by any compact among the owners. The most interesting feature of the situation has been the part played by the Economic System, (just now accused as the "mother of monopolies") in providing additional land area and floor space on and about the Island.

Who would or could have built the wonderful bridges which both serve and adorn New York and environs, or constructed the tunnels, subways, elevated railways, and high buildings (with their marvelous system of vertical transportation) without the aid of the vast organiza-

tion of specialists known as the Economic System? Having regard for the close cooperation of modern science and industry, it is not too much to say that their consolidated resources have been pitted against the rising land values of Manhattan.

The Island is 2½ miles wide at the widest, but these achievements have widened the commuting territory by thirty miles or more, North, East, and West of Manhattan. The diffusion of demand for floor space over this new land area, and up in the air, has diffused land values on a graduated scale over all the commuting territory, by the simple law of supply and demand.

How much of "monopoly" is left, and how much can it exact? This is determined by the law of the equilibrium, which is the law of supply and demand under another name. In this and every similar situation, wherein numerous factors are changing, supply and demand tend to meet and satisfy each other, playing around a focal point, where all related influences meet and merge their differences into the equilibrium which thus results.

Under the pressure of the influences described, the population of Manhattan decreased from 2,330,524, at the peak in 1910, to 1,653,844 July 1, 1935, or by 29.1 per cent, while the population of Greater New York increased from 4,000,000 in 1910 to 7,601,575 July 1, 1935, or by approximately 89 per cent.*

A Study of Manhattan Land

Prior to 1906 lands and buildings in New York City were not assessed separately, but since that date they have been. In 1922 Dr. G. B. L. Arner of Columbia University, acting for a Citizens Committee, made a computation of the change in the values of all Manhattan land from 1906 to 1921, based on the assessed valuation, corrected to current selling values. Also allowance was made for carrying charges on unimproved land, including 4 per cent interest on them and interest at the same rate on the 1906 valuation. No allowance was made on land improved with buildings. The calculation indicated a net decline in the value of all Manhattan land of 4½ per cent in the fifteen years.

A few years later, the preceding committee having become inactive, the present Citizens' Committee was formed, headed by the distinguished citizen, the Hon. Frederic A. Delano, former President of the Wabash Railway Company, member of the Federal Reserve Board, etc., and a near relative of President Franklin Delano Roosevelt. This Committee, composed of eminent citizens of New York, has been conducting a Regional Survey of New York and its environs, its work being as yet unfinished. Under its auspices, the Arner study has been extended down to 1926, thus covering twenty years in all.* The five years added showed a net rise of values, probably due to the post-war real estate activity, and put the 20-year period in the black at the rate of about one-third of 1 per cent per year. This, however, was without allowance for the decline in the purchasing power of money over that period, of which every one knows. When allowance was made for this, by converting all figures to the 1913 price level, the 1921 valuation was found to be 38.6 per cent below what it would have been if land values had advanced in correspondence with the general level of Bureau of Labor prices; and the 1926 valuation was 32 per cent below the parity of a similar comparison with the level of 1906. It should be added that these were not years of business depression for New York: business statistics generally were showing large increases; for example, from 1906 to 1926, a corresponding calculation shows that postal receipts increased 161.6 per cent, bank clearings 72.8 per cent, building operations (in Manhattan) 77.9 per cent, in Greater New York 174.5 per cent, and the general wage level (hourly rates), was up 66.4 per cent,—all while Manhattan land values were shrinking 32 per cent below the 1906 valuations.

The decline of 32 per cent in Manhattan land values from 1906 to 1926 corresponds rather closely with the decline of 29.1 per cent in the Manhattan population from 1910 to 1930.

Clearly, the outstanding feature of the land situation in this period was *not* Monopoly, but Competition.

A study of the title records of New York City since 1900 shows in the aggregate a continuous increase in the number of titleholders, by the subdivision of farms and other sizable tracts into smaller pieces or "lots" of uniform size. In Manhattan, however, the trend is the other way, by the "assembling" of small pieces into larger ones to provide for the erection of larger buildings than previously had occupied the land. The net increase in the number of "parcels" assessed to a single titleholder has been about 60 per cent since 1900, but this does not allow for "parcels" transferred from individuals to corporations which have stocks and bonds outstanding. The holders of these securi-

*Greater New York comprises five boroughs (also counties) viz: Manhattan, Brooklyn and Queens, (last two across East River) the Bronx, (north of the Harlem) and Richmond (Staten Island). In addition to the population of Greater New York, the "metropolitan district," (including all within a radius of 28-30 miles from the center of Manhattan) contained in 1930 3,970,978, according to the Federal Census. Of these 2,915,056 lived in New Jersey, having a joint interest in New York harbor, 917,619 lived in New York suburbs, and 138,303 in Connecticut. The grand total is 11,572,553, but excepting Greater New York the figures are six years old and numerous commuters travel more than 30 miles. Hence it is very probable that the grand total of the "metropolitan district" is not less than 12,000,000.

*For a review of the Arner study and the extension, see Appendix II, Vol. II, Regional Survey, Printed in 1929, pp. 187-192.

ties doubtless are much greater in number than the former owners of the land.

Thus the review of Manhattan real estate over twenty to thirty years, both as to immunity from competitive influences and as to the trend of ownership, affords no evidence that ownership enjoys a "monopoly" in the usual sense of that term, but completely disproves it.

The Economic System As a Whole

This completes our review of the seven classes of wealth named in the table. The purpose of the discussion has been to emphasize the natural checks upon tendencies to Monopoly and to correct certain current but mistaken impressions as to the concentration of wealth. The analysis leaves little space for further comment. We have stressed the difference between the two classes of wealth, i.e., productive property and consumable goods. The productive properties which comprise nearly all of the table are of use only in producing consumable goods, as named in (3) and (4), or of services which are not listed at all, as of class (2). The productive properties are not themselves consumable, except as they wear out in use; only their products or services are physically distributable. Therefore, the table, although substantially correct as far as it goes, affords no adequate idea of the volume and variety of goods and services distributed by the economic system.

The men and women "gainfully employed," who in 1929 numbered 48,830,000 (without the millions of home workers not included by the census) are the most important part of the economic system, but their labor is not listed, and scarcely included at all. These workers supply the labor, skill and ideas that the system must have, and also constitute the market for the products. In short, the workers are cooperating with each other and with the owners of these properties—in the factories, fields, households, mines, transportation, banking, trade, professional services, etc., etc., — to produce the vast stream of goods and services that is flowing through the markets daily. As Professor King has said "We do not buy a street car line in order to enjoy the service of a street car, but buy the service as we want it," and this applies to all the services of properties named in (2), and also of the manufacturing properties. Furthermore, the owners of such properties derive little or no benefit from them except as they *sell* their products or services to others. One buys shares in a railroad or industrial company, not as a consumer, but as an investor. This explains the difference between the two classes of wealth, which is important in any discussion of wealth distribution and the extent to which it is concentrated or monopolized.

The review has shown that the forms of wealth usually surveyed are not the forms in which distribution actually takes place, and that when the latter are taken into account the aggregate distribution is seen to have been enormously increased and to be constantly increasing; also that the very nature of the goods and services moving in trade is evidence that they are destined for the use of the great body of the people. Moreover, their production and distribution is one continuing process, the distribution being in compensation for services in production, and the whole system practically an exchange of services.

Furthermore, the process in all its details is constantly undergoing change. The products are changing, the methods are changing, the workers themselves are changing, and all relationships are changing. None of these principal factors remains the same, even over night, and the tendency of all the changes is to increase the aggregate volume of production and distribution.

It is evident that incidental to this flux of changing conditions, new situations are continually developing, which at the instant may be favorable or unfavorable to this or that group or individual in relations with the others, as they exchange services; in short, there are many reactions, with constant need for adaptation to new conditions, but since there can be no progress without change, and all gain by improvements in the system, all should be loyal to it. Every new discovery or invention gives some degree of monopoly to the discoverer or inventor, until others can have it also, and as an encouragement to useful development, the government grants monopolies for limited periods to worthy originators and undertakes to assure them against competition. Nevertheless, it is evident, that every new discovery, invention, method, plan, or idea of any kind, competes with every existing one with which it conflicts, and certainly with every one which it supersedes. Moreover, it is apparent that in a progressive society—with individual initiative free, the public receptive to new ideas, basic education free, technical schools pouring out trained youths for all the industries, research laboratories in all the industries, science announcing new discoveries daily—the scope and significance of competition must be constantly increasing. It seems not too much to say that Monopoly is incidental and Competition fundamental. No better demonstration of this is needed than is given by the story of land values and population changes in recent years in and about New York City, as appears above.

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